

REVISED  
REBUTTAL TESTIMONY

of

MICHAEL MCNALLY

Finance Department

Financial Analysis Division

Illinois Commerce Commission

Interstate Power and Light Company  
and  
ITC Midwest LLC

JOINT PETITION FOR APPROVAL OF UTILITY ASSETS PURSUANT TO SECTION  
7-102; TRANSFER OF FRANCHISES, LICENSES, PERMITS, OR RIGHTS TO OWN  
PURSUANT TO SECTION 7-203; TRANSFER OF CERTIFICATES OF CONVENIENCE  
AND NECESSITY PURSUANT TO SECTION 8-406; APPROVAL OF THE  
DISCONTINUANCE OF SERVICE PURSUANT TO 8-508; AND THE GRANTING OF  
ALL OTHER AND APPROPRIATE RELIEF

Docket No. 07-0246

September 11, 2007

OFFICIAL FILE  
ICC DOCKET NO. 07-0246  
Staff Exhibit No. 5.0R  
Witness \_\_\_\_\_  
Date 9/13/07 Recorder \_\_\_\_\_

1     **Q1. Please state your name and business address.**

2     A1. My name is Michael McNally. My business address is 527 East Capitol Avenue,  
3         Springfield, IL 62701.

4     **Q2. Are you the same Michael McNally who testified previously in this**  
5         **proceeding?**

6     A2. Yes, I am.

7     **Q3. Please state the purpose of your rebuttal testimony.**

8     A3. The purpose of my rebuttal testimony is to update my evaluation of the financial  
9         strength of ITC Midwest LLC ("ITC Midwest"), to reflect the additional information  
10        provided in the rebuttal testimony of ITC Midwest's witness Patricia A. Wenzel  
11        (Exhibit PAW 7.0), as it pertains to the proposed sale (the "Transaction") of  
12        Interstate Power and Light Company's ("IPL") transmission assets to ITC  
13        Midwest (together, the "Joint Petitioners"), pursuant to Sections 7-102 and 8-406  
14        of the Public Utilities Act ("Act").

15    **Q4. Please summarize your primary concerns with the Joint Petitioners' initial**  
16        **filings.**

17    A4. My primary concerns were with lack of information regarding the details of the  
18        Transaction as well as the marginal financial position of ITC Midwest's parent  
19        company, ITC Holdings Corp. ("ITC Holdings"), and the possible resulting  
20        implications for ITC Midwest and its customers.<sup>1</sup>

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<sup>1</sup> ICC Staff Exhibit 4.0, pp. 9-10.

21 **Q5. Did the Joint Petitioners sufficiently address your concerns?**

22 A5. ITC Midwest's witness Wenzel provided many of the details regarding the  
23 Transaction that were missing from the Joint Petitioners' previous filings.  
24 However, she provided little to allay my concerns about ITC Holdings' financial  
25 strength. ITC Holdings is, and would remain, highly leveraged and has a  
26 Moody's credit rating of only one notch above junk status. In fact, Ms. Wenzel  
27 testified that ITC Holdings has no plans to realign its 70% debt capital structure.<sup>2</sup>  
28 Moreover, ITC Midwest's finances are still reliant on both ITC Holdings and  
29 favorable Federal Energy Regulatory Commission ("FERC") rate treatment.  
30 Even if ITC Midwest receives favorable rate treatment from FERC, ITC Midwest  
31 will remain subject to the influence of ITC Holdings.

32 **Q6. Given the evidence presented since the filing of your direct testimony, what**  
33 **is your recommendation now?**

34 A6. The Transaction, if approved, will likely have adverse impacts on ITC Midwest  
35 and its customers. Thus, I believe that ITC Midwest is not capable of financing  
36 the Transaction without *significant* adverse consequences to ITC Midwest or its  
37 customers and I recommend that the Commission reject the Joint Petition as  
38 inconsistent with the public convenience requirement of Sections 7-102 and 8-  
39 406 of the Act.

40 **Q7. Does this conclude your prepared revised rebuttal testimony?**

41 A7. Yes, it does.

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<sup>2</sup> Exhibit PAW 7.0, p. 26.